

British Gas Trading Limited

Directors' Report and Financial Statements

For the year ended 31 December 2004



British Gas Trading Limited

Directors' report for the year ending 31 December 2004

The directors present their report and audited financial statements of British Gas Trading Limited (the "Company") for the year ended 31 December 2004.

Principal activities

The principal activity of the Company was the provision of gas and electricity to homes and businesses in Great Britain.

Business review

Wholesale gas prices once again dominated the energy landscape with the market price for gas in 2004 29% above that for 2003. This brought an unavoidable round of retail tariff increases across the industry. Energy consumers reacted to these price increases and the total level of churn rose markedly, with British Gas, as the market leader, suffering disproportionately. We put measures in place to address this. Since our price rise was announced we have launched a range of new products in British Gas and have increased our focus on selling with the delivery of the cross-selling capability in our transformation programme. We are already seeing a positive impact with net losses beginning to fall.

Business restructuring costs of £33.7m were provided for to cover the cost of staff reductions as well as the acceleration of elements of the British Gas transformation programme.

The operating loss arises as a result of an adjustment to prices on a contract to procure gas from its wholly owned subsidiary, Hydrocarbon Resources Limited (HRL). This pricing adjustment reflects a historical re-negotiation of the contract such that the Company pays a price to HRL in excess of current market rates. It increased the cost of sales and amounted to £299.8 million (2003: £252.1 million).

Financial results

The results of the Company are set out on page 7.

During the year the Company made an operating loss on ordinary activities of £185.4 million for the year (2003: £62.5 million loss) and a retained profit for the year of £766.1 million (2003: loss of £58.5 million).

Dividends

Dividends of £1bn and £400m were paid on 27 September and 23 December 2004 respectively. (2003: £nil).

Directors

The following served as directors during the year:

Sir R A Gardner

M S Clare

P K Bentley

J S Ulrich (appointed 11 April 2005)

At no time during the year ended 31 December 2004, did any director have any interests in the shares of the Company (2003: nil) or any other company within the Centrica group, except for interests in, and options over, the shares and interests of the ultimate parent company, Centrica plc.

Details of the interests of P K Bentley, M S Clare and Sir Roy Gardner in the shares, and options over shares, in the ultimate parent company, Centrica plc, are shown in the 2004 Centrica Annual Report and Accounts.

There were no contracts of significance during or at the end of the financial year to which the Company or any subsidiary and associated undertakings is a party and in which any director is or was materially interested.

British Gas Trading Limited

Directors' report for the year ending 31 December 2004 (continued)

Related party transactions

The Company has taken advantage of the exemptions within Financial Reporting Standard No 8 "Related Party Disclosures" from disclosure of transactions with other Centrica group companies. There have been no other disclosable related party transactions during the year (2003: £nil).

Creditor payment policy

It is the Company's policy to pay all of its creditors in accordance with the policies set out below. Special contractual terms apply for gas and electricity supplies. For all other trade creditors, it is the Company's policy to:

- i) agree the terms of payment in advance with the supplier;
- ii) ensure that suppliers are aware of the terms of payment; and
- iii) pay in accordance with contractual and other legal obligations.

The number of days' purchases outstanding as at 31 December 2004 was 43 days (2003: 33 days).

Employment policies

During 2004, the Company employed an average of 13,678 people, all employed in the United Kingdom (2003: 13,174). The disclosures surrounding the 'Staff costs during the year' and the 'Average number of employees during the year' (see note 4) relate to Centrica Group employees that work in the British Gas Trading Limited business. Not all of these employees have service contracts with British Gas Trading Limited, because in some cases the contracts of service are with other Centrica Group companies. The directors believe that the disclosures given are the fairest representation of the staff costs for the business.

The Company is committed to pursuing equality and diversity in all its employment activities and continues to support initiatives to provide employment for people from different minority groups in the community including people with disabilities, carers and lone parents. The Centrica Group, to which British Gas Trading Limited belongs, is actively working with a number of organisations in the diversity arena including the Employers' Forum on Age, Race for Opportunity, Opportunity Now, Carers UK, Working Families and Jobcentre Plus.

The Company's business principles and policies set out standards and expectations of behaviour of its employees in conducting business in an ethical way.

Employees are regularly updated on performance against the Company's strategy. There are regular employee surveys, action planning forums and dialogue with representatives of recognised trade unions. Employees' views are also sought using a network of local consultative bodies. Employment policies and a range of other information are included on Essential, a Centrica Group intranet portal.

The Centrica Group, to which British Gas Trading Limited belongs, encourages employee share ownership by operating tax authority-approved share schemes open to all eligible employees, including executive directors.

British Gas Trading Limited

Directors' report for the year ending 31 December 2004 (continued)

Political and charitable donations

Charitable donations during the year amounted to £1,000,769 (2003: £145,286). No donations were made for political purposes during the year (2003: £nil)

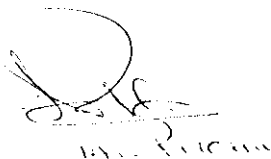
Directors' and officers' liability

Directors' and officers' liability insurance has been purchased by the ultimate parent company, Centrica plc, and was in place throughout the year under review.

Auditors

In accordance with Section 386 of the Companies Act 1985, the Company has elected to dispense with the obligation to reappoint auditors annually, and PricewaterhouseCoopers LLP will therefore continue in office.

This report was approved by the Board on 26 July 2005.



Centrica Secretaries Limited

Company Secretary

26 July 2005

Registered office:

Millstream

Maidenhead Road

Windsor

Berkshire SL4 5GD

British Gas Trading Limited

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and of the profit or loss for that period.

In preparing those financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

British Gas Trading Limited

Independent auditors' report to the shareholder of British Gas Trading Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the principal accounting policies note.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

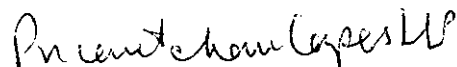
Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 31 December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

1 Embankment Place

London WC2N 6RH

26 July 2005

British Gas Trading Limited

Profit and Loss Account For the year ended 31 December

	Notes	2004 £000	2003 £000
Turnover	2	8,640,960	8,032,454
Cost of sales		<u>(7,536,747)</u>	<u>(7,079,935)</u>
Gross profit		1,104,213	952,519
Administrative expenses	3	<u>(1,289,564)</u>	<u>(1,015,031)</u>
Operating loss		(185,351)	(62,512)
Income from other fixed asset investments	9	2,400,000	-
Interest receivable	5	20,412	20,050
Amounts written off investments	9	(38,185)	-
Interest payable	5	<u>(15,376)</u>	<u>(17,295)</u>
Profit/(loss) on ordinary activities before taxation		2,181,500	(59,757)
Tax (charge)/credit on profit/(loss) on ordinary activities	6	<u>(15,411)</u>	<u>1,300</u>
Profit/(loss) on ordinary activities after taxation for the year		2,166,089	(58,457)
Dividends		<u>(1,400,000)</u>	<u>-</u>
Retained profit/(loss) for the year	18	<u>766,089</u>	<u>(58,457)</u>

There are no differences between the profit/(loss) on ordinary activities before taxation and the profit/(loss) for the year stated above and their historical cost equivalents.

There have been no recognised gains or losses during the year other than those shown in the profit and loss account.

All the activities relate to continuing operations.

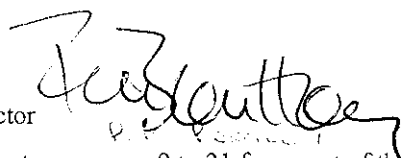
The notes on pages 9 to 21 form part of these financial statements.

British Gas Trading Limited

Balance Sheet As at 31 December

	Notes	2004 £000	2003 £000
Fixed assets			
Intangible assets (goodwill)	7	45,253	49,051
Tangible assets	8	409,953	396,919
Investments	9	1,247,162	1,285,347
		<u>1,702,368</u>	<u>1,731,317</u>
Current assets			
Stocks	10	72,999	71,733
Debtors (amounts falling due within one year)	11	1,543,533	1,312,234
Debtors (amounts falling due after more than one year)	11	98,198	103,602
Cash at bank and in hand		7,856	4,206
		<u>1,722,586</u>	<u>1,491,775</u>
Creditors (amounts falling due within one year)			
Borrowings	13	(6,091)	(10,990)
Other creditors	14	(1,547,516)	(2,102,879)
		<u>(1,553,607)</u>	<u>(2,113,869)</u>
Net current assets/(liabilities)		<u>168,979</u>	<u>(622,094)</u>
Total assets less current liabilities		<u>1,871,347</u>	<u>1,109,223</u>
Creditors (amounts falling due after more than one year)			
Accruals and deferred income	14	(4,835)	(2,236)
		<u>(4,835)</u>	<u>(2,236)</u>
Provisions for liabilities and charges	15	<u>(192,042)</u>	<u>(198,606)</u>
Net assets		<u>1,674,470</u>	<u>908,381</u>
Capital and reserves – equity interests			
Called up share capital	16	800,000	800,000
Share premium account	17	447,162	447,162
Profit and loss account	17	427,308	(338,781)
Equity shareholder's funds	18	<u>1,674,470</u>	<u>908,381</u>

The financial statements were approved by the Board of Directors on 26 July 2005 and were signed on its behalf by:

Director 

The notes on pages 9 to 21 form part of these financial statements.

Notes to the financial statements

1. Principal accounting policies

Accounting principles

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention and the Companies Act 1985.

Basis of preparation

The Company is a wholly owned subsidiary undertaking of GB Gas Holdings Limited, which is a wholly owned subsidiary undertaking of Centrica plc. The Company has taken advantage of the exemptions within FRS 1, Cash Flow Statements, from presenting a cash flow statement; within FRS 2, Accounting for Subsidiary Undertakings, from consolidating its subsidiary undertakings and incorporating the results of its share of joint ventures and associates; and within FRS 8, Related Party Disclosures, from disclosing transactions with other group companies.

Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales-related taxes. Turnover is recognised on the basis of energy supplied during the period. Turnover includes an assessment of energy supplied to customers between the date of the last meter reading and the year end (unread). Unread gas and electricity is estimated using historical consumption patterns and is included in accrued energy income within debtors. All turnover arose in the United Kingdom.

Cost of sales

Cost of sales includes the cost of gas and electricity purchased, related transportation costs and bought in materials and services.

Employee share schemes

As a subsidiary of Centrica plc, the company participates in a number of group employee share schemes. These are detailed in the Annual Report and Accounts for Centrica plc.

As permitted by UITF 17 (Revised 2003), the company does not recognise the difference between market value and option price to employees in relation to the UK sharesave scheme within the profit and loss account, on the basis that the schemes are offered to all employees. The costs of potential share and option awards under the long term incentive scheme and the executive share option scheme are charged to the profit and loss account over the period to which the performance criteria of each allocation relates. Cost is defined as the difference between the contribution receivable from employees and the market value at the date of grant. Cost also includes provision for employer's National Insurance charges expected to arise at exercise dates.

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at closing rates of exchange. Exchange differences are recognised through the profit and loss account.

Intangible fixed assets

Goodwill arising on the acquisition of a business is included in the balance sheet at cost, less accumulated amortisation and any provisions for impairment. On the acquisition of a business, fair values are attributed to the assets and liabilities acquired. Goodwill, which represents the difference between the purchase consideration and the fair values of those net assets, is capitalised and amortised on a straight-line basis over a period which represents the directors' estimate of its useful economic life. Goodwill is being amortised over periods ranging from 15 to 20 years. If an undertaking is subsequently sold, the appropriate unamortised goodwill or goodwill written off to reserves is dealt with through the profit and loss account in the period of disposal as part of the gain or loss on disposal.

Notes to the financial statements (continued)

1. Principal accounting policies (continued)

Tangible fixed assets

Tangible fixed assets are included in the balance sheet at cost, less accumulated depreciation and any provisions for impairment.

In the case of investments in customer relationship management (CRM) and other technology infrastructure, cost includes contractors' charges, materials, direct labour and directly attributable overheads. Capitalisation begins when expenditures for the asset are being incurred and activities that are necessary to prepare the asset for use are in progress. Capitalisation ceases when substantially all the activities that are necessary to prepare the asset for use are complete. Depreciation commences at the point of commercial deployment.

Tangible fixed assets are depreciated on a straight-line basis at rates sufficient to write off the cost, less estimated residual values, of individual assets over their estimated useful lives. The depreciation periods for the principal categories of assets are as follows:

Plant	5 to 20 years
Equipment and vehicles	3 to 10 years

Assets held under finance leases are depreciated over the shorter of the lease term or their useful economic life.

Leases

Rentals under operating leases are charged to the profit and loss account on a straight-line basis.

Asset impairments

Intangible and tangible fixed assets are reviewed for impairments if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is assessed by reference to the net present value of expected future cash flows of the relevant income generating unit or disposal value, if higher. If an asset is impaired, a provision is made to reduce the carrying amount to its estimated recoverable amount.

Investments

Other fixed asset investments are included in the balance sheet at cost, less any provisions for impairment as necessary.

Stocks

Stocks are valued at the lower of cost or estimated net realisable value.

Take-or-pay contracts

Where payments are made to external suppliers under take-or-pay obligations for gas not taken, they are treated as prepayments and are included within debtors.

Notes to the financial statements (continued)

1. Principal accounting policies (continued)

Pensions

Pensions are accounted for in accordance with SSAP 24, Pension Costs. The Company participates in group defined benefit pension schemes and contributions and pension costs are based on pension costs across the Group as a whole.

The cost of providing retirement pensions and related benefits is charged to the profit and loss account over the periods benefiting from employees' service. The difference between the charge to the profit and loss account and the contributions paid to the Pension Schemes is shown as a provision in the balance sheet. The regular pension cost, variations from the regular pension cost and interest are all charged within employee costs, and the straight-line method is applied for amortising surpluses and interest.

Long term sales contracts

Provision is made for the net present cost, using a risk free discount rate, of expected losses on onerous long-term sales contracts. The provision is based on the difference between the contracted sales price and the expected weighted average cost of gas.

Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated, but not reversed, at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits in the foreseeable future from which the reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is measured on a non-discounted basis.

Financial instruments

Certain financial instruments are used by the Company to manage financial risks. Where financial instruments are used as hedges against financial risks, they are matched at their inception to the specific exposures they are designed to reduce. Gains and losses are released to the profit and loss account in the same period as the income and costs of the hedged transactions. Outstanding contracts used to hedge against trading items which themselves will be accounted for in the profits and losses of a future period, are not recognised, or are deferred when they mature and are carried forward to match against corresponding gains and losses when they occur.

Notes to the financial statements (continued)

2. Segmental analysis

Included within turnover was £8,641 million (2003: £8,032.5 million) relating to energy supply, the principal activity of the business. Substantially all energy supply arose in the United Kingdom. This segment had an operating loss of £185.4 million in 2004 (2003: £62.5 million loss) and net assets of £1,674.5 million at 31 December 2004 (2003: £908.4 million net assets).

3. Operating costs

	2004 £000	2003 £000
The Company's operating costs, which have been charged to the profit and loss account, include:		
Amortisation of goodwill	3,798	3,797
Depreciation:		
Owned assets	69,673	43,418
Leased assets	-	-
Operating lease rentals:		
Plant and machinery	-	-
Other	6,437	6,740
Exceptional items	33,719	(51,477)
Auditors' remuneration:		
Statutory audit	493	394
Other	487	381
	<u> </u>	<u> </u>

Exceptional items

In 2004 the Company undertook a business restructuring in line with the announced acceleration of the British Gas transformation programme, the exceptional costs comprise £33.7million resulting from staff reductions (£15.0 million of wages and salaries and £18.7 million of pensions costs). The exceptional item in 2003 related to the release of a provision made in respect of the renegotiation of certain long term take or pay contracts.

Notes to the financial statements (continued)

4. Directors and employees

Directors' emoluments

Roy Gardner and Phillip Bentley received no emoluments in respect of their services to the Company. The emoluments of Mark Clare, as the highest and only paid director, are fully disclosed in the Centrica plc 2004 Annual Report and in aggregate were £870,000 (2003: £787,000).

Retirement benefits are accruing to the directors under a defined benefit pension scheme. The accrued pension of the highest paid director, Mark Clare, as at 31 December 2004 was £123,100 (2003: £89,900).

	2004 £000	2003 £000
Employee costs		
Wages and salaries	270,543	244,327
Social security costs	23,338	21,531
Other pension and retirement benefits costs	25,745	20,895
Long term incentive scheme	5,044	2,257
Share incentive plan	843	421
Employee sharesave scheme	(575)	(2,328)
	<u>324,938</u>	<u>287,103</u>

Average number of employees during the year

The average number of employees, all employed in the United Kingdom, during the year was 13,678 compared to 13,174 for 2003. All employees were administrative and sales staff.

The disclosures surrounding the 'Staff costs during the year' and the 'Average number of employees during the year' include all Centrica Group employees that work in the British Gas Trading Limited business. Not all of these employees have service contracts with British Gas Trading Limited, because in some cases the contracts of service are with other Centrica Group companies. The directors believe that the disclosures given are the fairest representation of number of people working in the business.

Notes to the financial statements (continued)

5. Net interest

	2004 £000	2003 £000
Interest receivable		
Interest receivable from group companies	-	544
Notional interest arising on discounted items	5,653	6,621
Other interest receivable	14,759	12,885
	<u>20,412</u>	<u>20,050</u>
Interest payable		
Interest payable on bank loans and overdrafts	(2,487)	(2,735)
Interest payable to group companies	(2,424)	(268)
Notional interest arising on discounted items	(10,465)	(14,292)
	<u>(15,376)</u>	<u>(17,295)</u>
Net interest receivable	<u>5,036</u>	<u>2,755</u>

6. Tax on profit/(loss) on ordinary activities

	2004 £000	2003 £000
Total current tax	-	-
Deferred tax:		
Origination and reversal of timing differences	37,232	58,793
Adjustments in respect of prior years	(21,821)	(60,093)
Total tax on profit/(loss) on ordinary activities	<u>15,411</u>	<u>(1,300)</u>

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2004 £000	2003 £000
Profit/(loss) on ordinary activities before tax	<u>2,181,500</u>	<u>(59,757)</u>
Tax on profit/(loss) on ordinary activities at standard UK corporation tax rate of 30% (2003: 30%)	654,450	(17,927)
Effects of:		
Expenses not deductible for tax purposes	102,782	77,363
Dividend income not taxable	(720,000)	-
Utilisation of timing differences including losses	(26,431)	(38,298)
Capital allowances in excess of depreciation	(10,801)	(21,138)
	<u>-</u>	<u>-</u>

Notes to the financial statements (continued)

7. Intangible fixed assets (goodwill)

	Goodwill £000
Cost	
At 1 January 2004	56,962
At 31 December 2004	<u>56,962</u>
Amortisation	
At 1 January 2004	(7,911)
Charge for the year	(3,798)
At 31 December 2004	<u>(11,709)</u>
Net book value	
At 31 December 2004	<u><u>45,253</u></u>
At 31 December 2003	<u>49,051</u>

The intangible assets comprise goodwill arising on the acquisition of the trade and assets of Enron Direct Limited in 2001. The useful economic life of this goodwill is 15 years, representing the period over which the value of the underlying business acquired is expected to exceed the values of its identifiable net assets.

8. Tangible fixed assets

	Plant, equipment and vehicles £000
Cost	
At 1 January 2004	567,703
Additions	82,877
Disposals	(9,859)
At 31 December 2004	<u>640,721</u>
Accumulated depreciation	
At 1 January 2004	(170,784)
Charge for the year	(69,673)
Disposals	9,689
At 31 December 2004	<u>(230,768)</u>
Net book value	
At 31 December 2004	<u><u>409,953</u></u>
At 31 December 2003	<u>396,919</u>

Notes to the financial statements (continued)

9. Fixed asset investments

	Shares in subsidiary £000
Cost and net book value	
At 31 December 2003	1,285,347
Impairment	(38,185)
At 31 December 2004	1,247,162

During the year, a provision was made to write down the value of the investment in Electricity Direct Limited to £nil, as a result of the migration of Electricity Direct Limited customers, processes and employees to British Gas Trading Limited. The migration is expected to be fully completed by the end of 2005.

Interests in subsidiaries

As at 31 December 2004 the Company had interests in the issued share capital of the subsidiary undertakings listed below:

Subsidiary undertaking	Business	Country of incorporation	Proportion of nominal value of shares held
Hydrocarbon Resources Limited	Gas Production	United Kingdom	100%
Electricity Direct (UK) Limited	Electricity Supply	United Kingdom	100%

Income from fixed asset investments

Dividends of £2 billion and £400 million (2003: £nil) were received from Hydrocarbon Resources Limited on 27 September and 15 December 2004 respectively. No dividends (2003: £nil) were received from Electricity Direct (UK) Limited during the year ended 31 December 2004.

10. Stocks

	2004 £000	2003 £000
Gas in storage	72,999	71,733

Notes to the financial statements (continued)

11. Debtors

	2004 Within one year £000	2004 After more than one year £000	2003 Within one year £000	2003 After more than one year £000
Trade debtors	525,674	-	459,865	-
Accrued energy income	798,792	-	681,264	-
Amounts owed by group undertakings	23,365	22,677	6,420	24,922
Deferred corporation tax	3,900	25,948	4,762	40,497
Other debtors	182,630	24,195	145,314	34,084
Prepayments and other accrued income	9,172	25,378	14,609	4,099
	<u>1,543,533</u>	<u>98,198</u>	<u>1,312,234</u>	<u>103,602</u>

Included in prepayments and other accrued income falling due after one year is £25.4 million (2003: a provision of £18.9 million) relating to pension assets. This represents the difference between charges to the profit and loss account and the contributions paid to the pension schemes. (see notes 15 and 19).

12. Deferred taxation

Deferred tax assets comprise:	Amounts recognised		Amounts unrecognised	
	2004 £000	2003 £000	2004 £000	2003 £000
Deferred corporation tax				
- accelerated capital allowances	(26,781)	(15,980)	-	-
- other timing differences	56,629	61,239	82	138
	<u>29,848</u>	<u>45,259</u>	<u>82</u>	<u>138</u>

As required by FRS 19, deferred tax assets are only recognised when there is persuasive and reliable evidence that the assets can be realised. Detailed operating plans covering two years from the balance sheet date are used for deferred tax asset recognition purposes. Potential deferred tax asset utilisation falling outside that planning horizon is not currently recognised in the balance sheet. As encouraged by FRS 19, deferred tax asset recognition will be regularly re-assessed.

13. Borrowings

	2004 Within one year £000	2004 After more than one year £000	2003 Within one year £000	2003 After more than one year £000
Bank loans and overdrafts	<u>6,091</u>	<u>-</u>	<u>10,990</u>	<u>-</u>

The Company's bank overdraft at the year end represented items in the process of being cleared by the bank. Centrica plc's treasury department pools funds daily and via intercompany accounts resets the Company's balance at the bank to £nil. All interest charges payable on the bank overdraft during the period are borne by the parent undertaking.

Notes to the financial statements (continued)

14. Other creditors

	2004 Within one year £000	2004 After more than one year £000	2003 Within one year £000	2003 After more than one year £000
Trade creditors	513,916	-	502,840	-
Amounts owed to group undertakings	365,222	-	931,101	-
Taxation and social security	9,071	-	6,815	-
Other creditors	434,908	-	434,149	-
Accruals and deferred income:				
Transportation	18,155	-	29,652	-
Other accruals and deferred income	206,244	4,835	198,322	2,236
	<u>1,547,516</u>	<u>4,835</u>	<u>2,102,879</u>	<u>2,236</u>

15. Provisions for liabilities and charges

	As at 1 Jan 2004 £000	Profit and loss charge/ (credit) £000	Notional Interest £000	Utilised £000	As at 31 Dec 2004 £000
Sales contract loss and renegotiation provisions	166,967	(10,461)	(10,465)	-	146,041
Restructuring costs	-	33,719	-	(4,746)	28,973
Pension and other retirement benefits	18,939	25,745	-	(44,684)	-
Long Term Incentive Scheme	12,125	5,044	-	(190)	16,979
Employee Sharesave Scheme	575	(575)	-	-	-
Other	-	49	-	-	49
	<u>198,606</u>	<u>53,521</u>	<u>(10,465)</u>	<u>(49,620)</u>	<u>192,042</u>

Sales contract loss and renegotiation provisions

The sales contract loss provision represented the net present cost, using a risk free discount rate, of expected losses on onerous long-term sales contracts based on the difference between contracted sales prices and the expected weighted average cost of gas. These contracts terminate between 2005 and 2006. The profit and loss charge includes £10.5 million of notional interest (2003: £14.3 million).

In previous years, the Company renegotiated certain long-term take-or-pay contracts which would have resulted in commitments to pay for gas that would be excess to requirements and/or at prices above likely market rates. The provision represents the net present cost of estimated payments due to suppliers as consideration for the renegotiations, which are due for settlement in 2008 based on the reserves in a group of third party fields.

Pension and other retirement benefits

This provision included the difference between charges to the profit and loss account and the contributions paid to the pension schemes in respect of retirement pensions and other related benefits (see note 19). The pension asset of £25.4 million at 31 December 2004 is included in prepayments (see note 11).

Notes to the financial statements (continued)

15. Provisions for liabilities and charges (continued)

Restructuring costs

The provision represents business restructuring costs and mainly relates to staff redundancies. The profit and loss charge for the year of £33.7 million related to exceptional redundancy costs (see note 3). The majority of these sums are expected to be spent in 2005.

Long Term Incentive schemes

The provision represents the cost of potential share awards under the Centrica plc group's long term incentive scheme. Cost is defined as the difference between the contribution receivable from employees and the market value at the date of the grant. Cost also includes provision for employer's National Insurance charges expected to arise at exercise dates.

16. Called up share capital

	2004 £000	2003 £000
Authorised		
1,800,000,100 ordinary shares of £1 each	<u>1,800,000</u>	<u>1,800,000</u>
Called up, allotted and fully paid		
800,000,100 ordinary shares of £1 each	<u>800,000</u>	<u>800,000</u>

17. Reconciliation of movements in reserves

	Share Premium £000	Profit and Loss £000
As at 1 January 2004	447,162	(338,781)
Profit for the financial year	-	766,089
As at 31 December 2004	<u>447,162</u>	<u>427,308</u>

18. Reconciliation of movements in equity shareholder's funds

	2004 £000	2003 £000
Equity shareholder's funds as at 1 January	908,381	966,838
Profit/(loss) for the financial year	766,089	(58,457)
Equity shareholder's funds as at 31 December	<u>1,674,470</u>	<u>908,381</u>

Notes to the financial statements (continued)

19. Commitments and contingencies

	2004 £000	2003 £000
a) Capital commitments		
Contracted for but not provided	<u>36,815</u>	<u>45,698</u>
	2004 £000	2003 £000
b) Lease commitments		
At 31 December non-cancellable operating lease commitments of the Company for the following year were:		
Expiring:		
- Between one and five years	<u>4,515</u>	<u>6,740</u>
	<u>4,515</u>	<u>6,740</u>

There were no operating leases relating to land and buildings (2003: £nil).

c) Pensions

The Company accounts for pensions in accordance with SSAP24 but includes additional disclosures as required under the transitional arrangements of FRS17.

The majority of the Company's UK employees as at 31 December 2004 were members of two of the three main schemes in the Centrica plc Group; the Centrica Pension Scheme and the Centrica Management Pension Scheme.

These schemes are defined benefit schemes and their assets are held in separate trustee administered funds. However, it is not possible on a reasonable and consistent basis to identify the Company's share of the underlying assets and liabilities within these schemes, and therefore, as allowed within FRS17, these schemes have been treated as defined contribution schemes. The aggregate contributions to the schemes during the year were £70,061,531 (2003: £32,166,663). The amount outstanding at the balance sheet date was £3,556 (2003: £5,729). The latest actuarial valuation of the schemes, prepared for the purposes of making the transitional disclosures in accordance with FRS17 in the consolidated financial statements of Centrica plc, show a total deficit of £488 million (£342 million net of deferred tax) (2003: £571 million (£398 million net of deferred tax)). Further details of this valuation can be found in the annual report of Centrica plc.

The liabilities under the pension schemes will be paid out over an extended period. The Company is contributing to the pension fund on the basis of actuarial advice as to the amounts required to meet these liabilities in full. This actuarial advice is based on triennial funding valuations, the last of which was as at 31 March 2004.

d) Guarantees and indemnities

Centrica plc has £915 million of bilateral credit facilities (2003: £915 million). The Company and Hydrocarbon Resources Limited have guaranteed, jointly and severally, to pay on demand any sum which Centrica plc does not pay in accordance with the facility agreements.

The Company is part of a group cross guarantee arrangement whereby, together with other members of the group, it has guaranteed the overdrafts of certain other group undertakings. At 31 December 2004, the Company's exposure under this guarantee was £45 million (2003: £13 million).

Notes to the financial statements (continued)

19. Commitments and contingencies (continued)

e) Gas purchase contracts

The Company is contracted to purchase 94 billion therms of gas (2003: 76 billion therms) in Britain under long-term contracts. In 2002 the Company entered into a contract with Gasunie to purchase an additional 27 billion therms over 10 years. This commitment was conditional at 31 December 2003. During 2004 it became unconditional and is therefore included in the 2004 figures below. Other increases on last year are largely due to the signing of gas procurement contracts with Shell, HydroWingas and Statoil. The long-term supply of LNG from Petronas is not included as not all of the conditions precedent have been fulfilled or waived. The gas contract commitments also include several contracts with prices linked to the market price for gas and legacy contracts at prices, mainly determined by various baskets of indices including oil prices and general inflation, which may exceed market gas prices from time to time.

The total volume of gas to be taken under these long-term contracts depends upon a number of factors, including the actual reserves of gas that are eventually determined to be extractable on an economic basis. Based upon the minimum volume of gas that the Company is contracted to pay for in any year, the profile of the contract commitments (excluding purchases from Hydrocarbon Resources Limited) is estimated as follows:

	2004 million therms	2003 million therms
Within five years	59,500	43,500
After five years	34,600	32,400
	<u>94,100</u>	<u>75,900</u>

The directors do not consider it feasible to estimate reliably the actual future cost of committed gas purchases as the Company's weighted average cost of gas from these contracts is subject to a variety of indexation bases. The Company's average cost of gas from its contracts with third parties for the year ended 31 December 2004 was 24.3 pence per therm (for the year ended 31 December 2003: 20.8 pence per therm).

The commitment profile on this same basis is set out below:

	2004 £m	2003 £m
Within one year	2,700	2,200
Between one and five years	11,800	6,800
After five years	8,400	6,700
	<u>22,900</u>	<u>15,700</u>

20. Ultimate parent company

Centrica plc is the ultimate parent undertaking and the only group to consolidate the accounts of the Company. Copies of the Annual Report of Centrica plc may be obtained from the Company Secretary, Centrica plc, Millstream, Maidenhead Road, Windsor, Berkshire, SL4 5GD.

The immediate parent company is GB Gas Holdings Limited, a wholly owned subsidiary of Centrica plc.